**Special show section: pp. 21-107**

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National Home Center News®

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# Evans to double DIY after merger with Sharon Steel

NEW YORK—Evans Products, which operates the nation's second largest home center group, will double its DIY division within five years, after a planned merger with Sharon Steel, according to Victor Posner, Sharon chairman, president and ceo.

His comments were made in a telephone interview with *NHCN* soon after the agreement between the two companies was announced on Feb. 19.

Posner explained that the method for this expansion will be up to Evans' chairman Monford Orloff.

Orloff said that Posner's expansion prediction was good to hear, but too optimistic. He indicated that Evans' retail growth over the next five years would probably mean increasing its size from the present 350 units to between 500 and 550.

"I admire that approach," Orloff said of Posner's view, "but I wouldn't be quite that bold."

The Evans growth plan—entering Washington and Oregon and filling in existing markets, particularly Texas—does not rely on Sharon Steel capital, according to Orloff.

"We are prepared to expand through our own internally generated cash flow," he said.

Evans retail, which reported sales of $756.2 million last year, operates home centers nationally under the Alamo, Grossman's, Hubbard & Johnson, Lindsley and Moores logos. The entire company, including its transportation division had 1981 sales of $1.5 billion.

The advantage to being part of Sharon Steel, which reported 1981 sales of $775.7 million, slightly more than Evans retail, is not that apparent, Orloff noted.

Sharon is a subsidiary of NVF, of which Posner is also chairman, president and ceo. NVF, which produces, among other products, laminated plastics, reported revenue of $885.9 million in 1981.

"Instead of being part of a $1.5 billion company, we'll be part of $2.5 billion to $3 billion company," Orloff said. "I don't know what precise benefit that could be."

Industry observer Reb Forte, an analyst with Montgomery Securities, San Francisco, agreed that the deal probably would not bring significant changes for Evans retail.

"The Posner style isn't to come in and do a heck of a lot," he said. "He saw good value at a good price. The business has always been run by Mike Grossman. I expect that will continue."

Grossman, president of Evans Retail Group, was not available for comment. Everett Grossman, executive vice president of Evans retail said:

"We're very optimistic about the whole thing. We have a strong retail group. If anything, it will be better than before. We're part of a bigger company with greater assets."

The merger could mean eventual changes in Evans management, however, Forte speculated.

"Visualize it: Posner in Miami; Orloff in Portland, Ore., and Grossman in Massachusetts. It doesn't make sense to have a layer between Posner

(Continued on page 122)

# Ex-Grace execs to debut two Hal's DIY units in May

**By Greg Puchalski**
*NHCN senior editor*

MILWAUKEE—A group of former W. R. Grace executives, who played significant roles in getting the conglomerate into the home center business, will kick off a new DIY venture of their own here in May.

The Slater family, founders of Channel Home Centers; Mary Kodis, a co-founder with Georges Hanzi of the Handy Dan and Handy City chains, and another anonymous Grace alumnus have invested in what will be a four-unit chain called Hal's, an acronym for "hardware and lumber stores."

The first two units are scheduled to open in May in space leased from Target discount stores. At presstime, approval from the local planning board was still pending for these units, which will have 29,000 sq. ft. of floor space and another 7,000 sq. ft. of roofed and fenced-in outdoor space.

Company officials have not announced a timetable for the opening of the other two stores.

Kodis will return to the home center spotlight as president of Hal's. She was with Handy City when Grace acquired the chain in 1976.

Two other top executives of the chain also worked for Grace-owned chains at one time and are also investors in the company.

Craig Rastello worked at Handy City before becoming a

(Continued on page 121)

*An estimated 23,000 people are expected to attend this year's Home Center Show at Chicago's McCormick Place.* NHCN photo

# This year's show-goers will be tough customers

CHICAGO—As this year's Home Center Show opens, manufacturers may find their retail customers a lot tougher to sell than usual.

Home center executives are not only cutting back inventories to counteract the high cost of carrying excess stock, but also have been trimming their chain's sku assortment—by as much as 50% in one chain—to bring their open-to-buy formulas into sync.

Consequently, retailers walking the show report they will concentrate on high-turning "basic" products and could lend a deaf ear to manufacturers' claims about the advantages of taking on full-range merchandise programs.

This has been the case at one large California chain that has restricted its store managers to buying only those products which have

(Continued on page 122)

## NEWSBREAKS

**Z-BRICK SUIT.** Distributor John Dittmar & Sons' $4.4 million suit against Z-Brick manufacturer VMC Corp. has come to trial. In initial testimony, Dittmar reported suffering serious losses after VMC cut off the distributor's supplies of Z-Brick. Dittmar claims VMC wanted to punish it for placing an order for a competitive product; VMC maintains Dittmar's poor performance was the reason. The trial is expected to last several weeks.

**SECOND INNER-HARBOR UNIT.** Baltimore independent Inner Harbor Lumber and Hardware recently opened its second unit. The $3 million operation, which aims at city DIYers, opened the 28,500-sq.-ft. unit in a former warehouse on the north side of Baltimore, about four miles from the original, waterfront, store.

*'Five per cent of our pretax profit is given to charity. We're getting a record number of requests to do more. I don't think we can.'*
**John W. Hechinger president, Hechinger**

# Charity begins in the home center

**By Kenneth Schept**
*NHCN senior editor*

NATIONAL REPORT—When Hudie Fleming graduated from Springarn High School in northeast Washington (D.C.), in 1959, the yearbook noted that his career goal was to manage a business.

Today he runs the Hechinger Mall store that opened about a year ago in the inner city, near his old school. The store has set up special programs for Springarn students as part of an Adopt-a-School effort sponsored by the Washington business community to help local youth develop job skills.

Other Hechinger stores have also adopted schools. That social involvement is not surprising from a company that donates 5% of its pretax earnings—$15.7 million last year—to charity.

While the 33-unit chain may be exceptional in the size of its commitment, it is not unique in the home center industry, where many companies regularly contribute money as well as employee time and products to a variety of causes.

With $127 billion in Administration budget cuts affecting the arts, education and social programs this year, it is likely that business will be asked to donate even more. Total contributions by individuals, foundations and corporations, which are expected to reach $52 billion in 1982, according to the American Assn. of Fund Raising, will not be enough to compensate for the reductions.

"We're getting a record number of requests to do more," said John Hechinger, president of the Landover, Md., firm. "I don't think we can do a lot more."

The requests come at a time when the home center industry is suffering from the effects of high inflation and the housing recession.

"Since the Reagan program is in effect, we would like to increase our contributions and, in fact, did take care of inflation with our United Way pledge," said Gerald Parsons, vice president for corporate relations at Evans Products, the second-largest home center operator in DIY volume with $614 million in sales last year.

"However, with business as it is," he added, "we're unable to increase our contributions substantially."

"We've always sold merchandise at cost to nonprofit organizations and made a corporate gift to United Way," said Pat Behan, vice president of Hill-Behan, the 33-store St. Louis

(Continued on page 122)

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# Wickes agrees to cover debts by selling some non-DIY assets

SAN DIEGO—Wickes Cos. formally agreed with short-term lenders to sell certain assets and subsidiaries to raise cash to pay off debts. Company officials, however, indicated their home improvement divisions are not currently slated to be sold.

The company earlier had said it was seeking a $580 million credit agreement with approximately 40 banks that would set certain financial restrictions on the chain and require it to proceed with long-anticipated divestitures (*NHCN*, Jan. 18).

Wickes has been losing money and its short-term debt has almost doubled in recent months.

While Wickes' officials declined to disclose their debt reduction schedule, they denied that the company is in financial jeopardy, noting that Wickes is up to date on all interest payments and has not defaulted on any loans. They said the credit agreement, in effect, was a vote of confidence by the consortium of bank lenders. Security Pacific National Bank is acting as agent for the consortium.

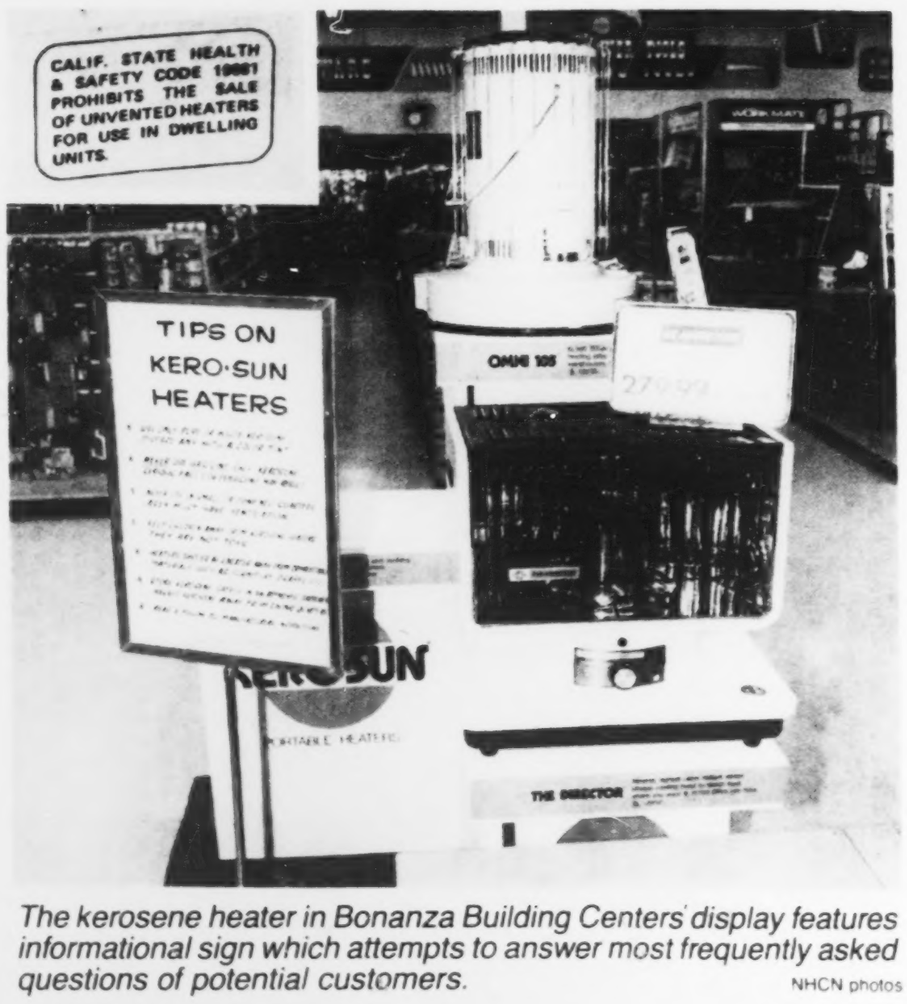
Nevertheless, one analyst who follows Wickes, John Tilson of E. F. Hutton's Los Angeles office, said Wickes "will have to raise $150 million to $200 million in cash to pay off its short-term debt"—a difficult proposition in these economic times.

Wickes' short-term debt on total business operations for the nine months ended Oct. 31 was $416 million, compared with $215 million for the comparable year-earlier period.

Since Wickes acquired Gamble-Skogmo in 1980, the company has divested some operations, and February's agreement between Wickes and its lenders is likely to speed up further sales.

The company said it is not considering selling off its 277-unit, $800 million Wickes Lumber division headquartered in Saginaw, Mich., or its 62-unit, $130 million Builders Emporium, the Irvine, Calif.-headquartered 100% consumer chain.

*(Continued on page 122)*


CALIF. STATE HEALTH & SAFETY CODE 19881 PROHIBITS THE SALE OF UNVENTED HEATERS FOR USE IN DWELLING UNITS.
TIPS ON KERO-SUN HEATERS

*The kerosene heater in Bonanza Building Centers' display features informational sign which attempts to answer most frequently asked questions of potential customers.* NHCN photos

# *Planned regs would raise minimum white-collar pay*

WASHINGTON—Labor Department wage and hour officials are drawing up new Federal regulations setting sharply higher minimum salary requirements for many assistant store managers and other supervisory workers in the home center industry.

Although details of the new Reagan Administration plan were still under wraps at presstime, indications are the regulatory changes will include:

- a stiff increase in the current $155 weekly salary minimum that employers must pay to low-wage supervisory workers who are exempt from Federal overtime pay requirements;
- a partial rollback of that pay hike for employees of home center outlets and other retail stores, and
- a significant liberalization of present Federal rules for determining which workers may qualify for an exemption from the Fair Labor Standards Act (F.L.S.A.).

Current F.L.S.A. regulations require that workers receive premium wages (time and a half) for all hours worked in excess of 40 per week, unless they perform certain Federally set supervisory duties and are paid a weekly salary of at least $155.

*(Continued on page 117)*

## *3-part marketing plan used*

# Kerosene heaters hot at Bonanza

SAN JOSE, Calif.—When Steve Elliott made the decision to add kerosene heaters to the product line of four-store Bonanza Building Centers in 1980, the merchandising manager knew he would face a good deal of consumer apprehension because of California's restrictive fire code.

But a three-pronged marketing strategy devised by Elliott and his Bonanza associates to alleviate that apprehension resulted in the sale of 900 heaters that first 1980-81 season and 1,000 during 1981-82. Elliott (who is leaving Bonanza this month to join Hughes Lumber, Tulsa, Okla., as director of marketing) expects that figure to double during 1982-83, when the chain will have six stores on line. (*NHCN*, Feb. 15).

Bonanza's strategy was to go with a "big name" in the field, do a great deal of advertising and provide consumer education. The chain decided to carry the Kero-Sun line.

The company was pleased with kerosene heater sales that first season, but the trouble started last October when, according to Elliott, local fire department inspectors visited Bonanza stores and informed employees they were in violation of the state fire code by selling the heaters "for residential use."

"We told the inspectors we did not encourage our customers to use them in their homes," he said, "but we have no control over how they use the heaters once they leave the store."

Bonanza also had to deal with antikerosene heater publicity, including newspaper articles and warnings on local television programs.

The company responded by removing any suggestion of home use of the heaters from their advertising, cutting back on newspaper ads from every four to every six weeks and "burying" the heaters deep inside their electrical departments.

"Sales were off considerably during that period of harassment," Elliott said, adding that the company decided to "keep a low profile" on the products.

The situation didn't ease until late December, when an amendment to the code was proposed and passed by the state assembly permitting U.L. listed heaters to be used in dwellings. Approval by the State Senate and Governor Brown is expected soon, ac-

*(Continued on page 117)*

# Jan. starts, permits gain for 3rd month

WASHINGTON—Single-family housing starts and newly issued homebuilding permits were up in January for the third consecutive month, on a seasonally adjusted annual basis. Mortgage rates, meanwhile, declined for the third time over the same period.

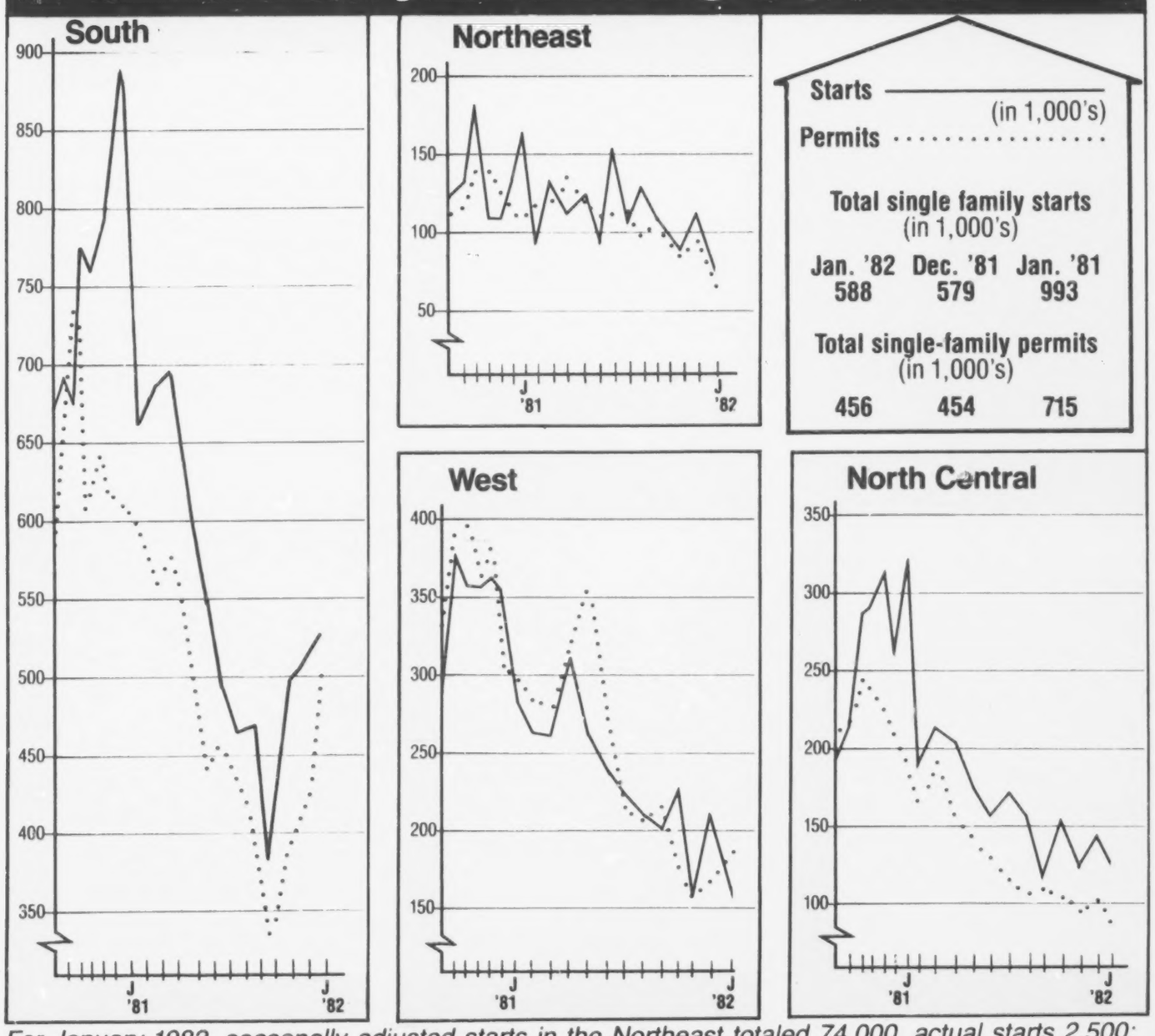
Single-family housing starts rose 5.2% from December, reaching a seasonally adjusted total of 588,000. Permits for total housing rose to a seasonally adjusted rate of 836,000, a 6% hike from the prior month, according to the Commerce Department.

Between early December and early January the average mortgage interest charged by major lenders dipped to 17.33%, from 17.51% a month earlier and 18.16% in October, according to the Federal Home Loan Bank Board.

Total seasonally adjusted housing starts in January were off 0.6% from December and numbered 894,000. Actual starts numbered 47,500, off 21.1% from the prior month.

On a regional basis, the South remained in the strongest position with seasonally adjusted starts of 531,000.

## January housing update




*For January 1982, seasonally adjusted starts in the Northeast totaled 74,000, actual starts 2,500; North Central, 129,000, 3,300; South 531,000, 31,900; West 160,000, 9,700.*

## INSIDE

**WICKES** raises cash to pay off debts, p. 2. . . . **HOME CENTER** ad directors are focusing more on newspapers, p. 3. . . . **PLYWOOD RANCH** has increased female traffic, p. 4. . . . **REAGAN'S POLICIES** are doing little good for housing, p. 11. . . . **STATE COURTS** disagree about bad checks, p. 12. . . . **HOME CENTER PERSPECTIVES '82,** a special Home Center Show section, features profiles and operation stories, as well as the show schedule (p. 23), a regional rundown on the effects of the New Federalism on state budgets (pp. 88-99), and a state-by-state summary of current blue laws (pp. 100-107), pp. 21-107.

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Vol. 8, No. 6 March 15, 1982

Show Special

# HOME CENTER Perspectives '82

SECTION TWO

# Chicago dealers optimistic despite fierce competition

CHICAGO—Local home center officials continue to grapple with the harsh realities that beset this city, although they claim the future here looks bright.

These executives almost uniformly concur that Chicago's place as a strong and highly competitive home improvement market remains secure, and they all look forward to growth in their companies once there is a break in the current recession (*NHCN*, Jan. 4).

However, this recession seems to have plagued Chicago longer than most cities, and all retailers have felt the brunt of protracted high unemployment, which has resulted in only a 4.5% increase in overall retail sales in 1981, following an even slimmer 1.5% gain the previous year.

In addition, competition in the Windy City has become so fierce that home centers have found themselves in a dogfight with discount and department stores, as well as specialty chains, for shrinking disposable consumer income.

"Chicago as a market has unlimited potential, but still there's plenty of competition," said Ron Rashkow, president of the 11-unit Handy Andy chain in suburban Gurnee, Ill. Among the names of nonhome center companies trying to carve out some DIY business for themselves, Rashkow listed Sears, Ward, Osco, Walgreen, Venture, Zayre, K mart and specialty stores like Naked Furniture, Saxon Paints and Color Tile.

Nevertheless, he added that this was also the first time he could remember a recession that affected Chicago "where it is noticeable. We're suffering like most other cities, and maybe even more so." He cited the recent closing of such local mass merchandising chains as Goldblatt's, May's and Belscot as indicative of the economic straits Chicago is in. "One day in November, the newspaper had five going-out-of-business ads."

In light of this situation, home centers in the market have found the need for drastic cost cutting—in the form of reduced inventories for some, layoffs for others—and, perhaps more significantly, paying stricter attention to the very different needs of the various ethnic communities that make up the city and suburbs.

"Chicago can't be looked at as an entire city, but as many different small communities, most of which rarely communicate with each other," said Jim Gee, president of the 11-unit Gee Lumber, whose chain has grown over the years through acquisition of independent stores already firmly established in a particular neighborhood. He does not want to upset the "feeling of sameness" he sees these customers wanting to preserve in their towns.

None of the chain's stores—which includes an old opera house, one that resembles an airplane hangar and one with colonial-style architecture—looks the same, and Gee has intentionally veered from some of the "slickness" he sees in some of his competitors' units.

For instance, the chain no longer uses sophisticated signage, preferring instead to

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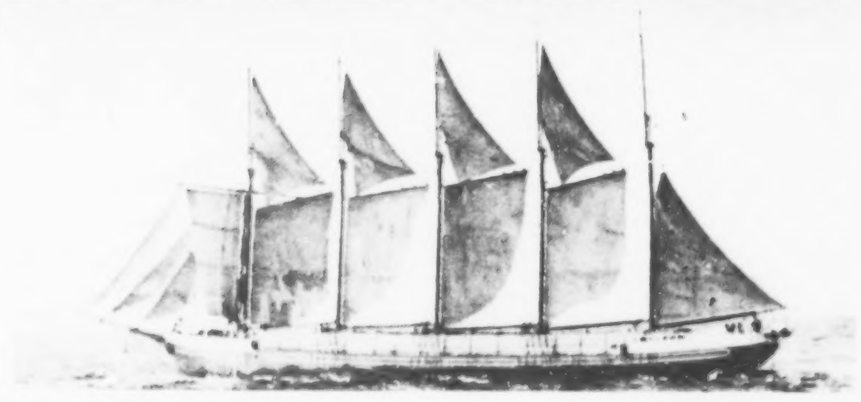
## Inside

### *Eagle owner shares the reins*

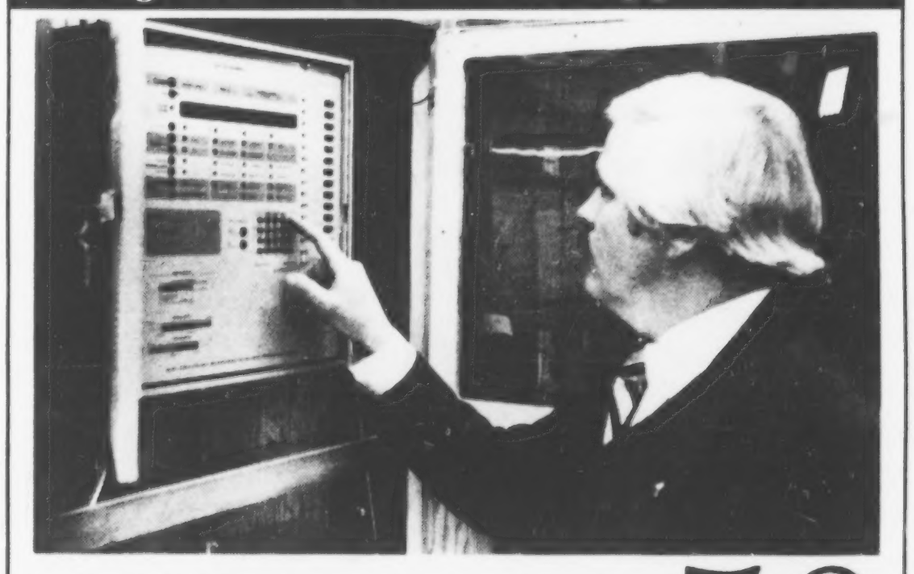
**Giving employees direct responsibility for the bottom line has allowed Eagle Lumber president Cathi Eagle to boost sales and spirit at her four-store home center operation.** **40**

### *Home center Hawaiian style*



**Honolulu's City Mill abandoned its five-masted sailing ship for ocean-going barges long ago to get its supply of lumber, but deliveries to the islands can still require four-month lead times.** **54**

### *Gee gets handle on energy costs*



**Brian Anderson figures Gee Lumber will recoup the cost of its new $32,000 energy control system in only seven months. Plans are under way to install the computerized system in all 12 Gee outlets.** **56**

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### *Canadian market matures*

# DIY becomes economic necessity

**By John Caulfield**
*NHCN field editor*

TORONTO—The Canadian home center market, which in the past simply mirrored the marketing and merchandising techniques of its bigger United States brother, is starting to take on characteristics of its own.

Unique socio-economic problems confronting this country of 22 million—including a serious lack of skilled laborers, an onerous combination of high inflation and unemployment, a projected 13% drop in housing starts this year, and a decided fragmentation in the retail sector—have led home center executives to seek new solutions to maintaining their profitability.

Canada's economy plays as big a part in the way these officials do business as anything. Inflation rose to an annual 12.5% rate in 1981 and actual unemployment jumped to 9.5% in January. In addition, the country's Housing and Urban Development Assn. predicted in February that housing starts would fall 13% in 1982 to 155,000 (as compared to 279,000 in 1976) with interest rates lurking in the 17.5%-18.7% range.

In the United States, the drop-off of new home construction has made the cost of labor for home repair relatively cheap. In Canada, just the opposite has happened.

Labor rates have gone through the roof, rising as much as 150% over 1971 charges, mainly because there has been a pronounced drop in training people to become skilled workers. Reportedly, workers from Australia and England have been "imported" to bolster Canada's sagging labor force.

These factors have forced consumers to recognize DIY repair as an economic necessity. However, just what constitutes a home center in their minds, and where they shop for specific products, has caused some retailers to rethink their companies' market profile.

"We've had to rearrange our stores to suit the perception consumers have of our company," said Andy Sibbald, vice president-home centers for Beaver Lumber. "So we're reintroducing depth in our lumber and building materials departments, because that's where we feel our strength and dominance lies."

#### The background

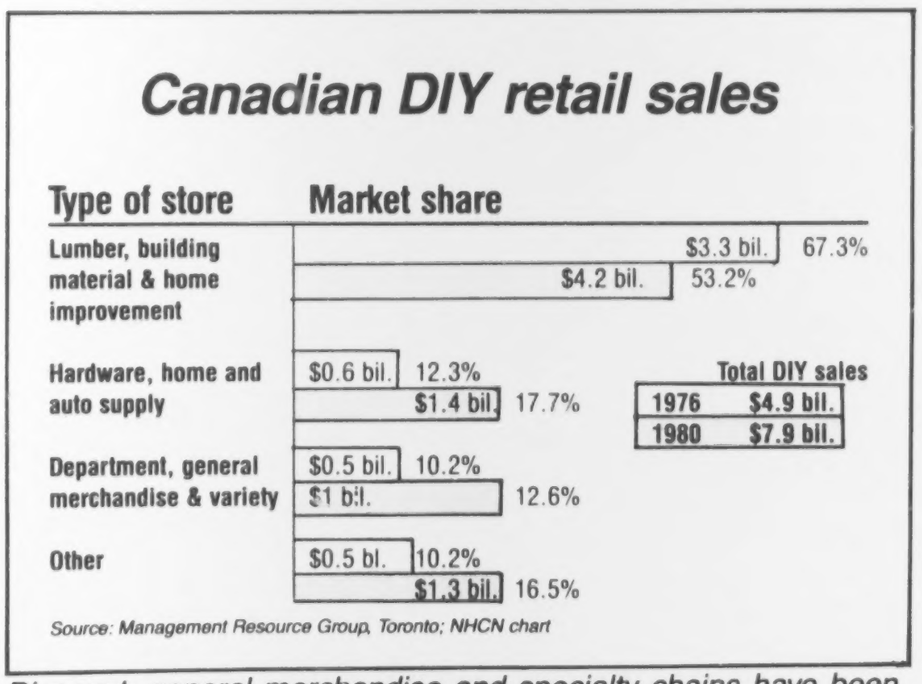
Indeed, according to a recent report from the Toronto-based Management Resources Group, the growth of the home improvement market—which it estimates reached $6.2 billion in sales in 1980—will come from a variety of merchants:

Discounters (K mart reportedly did $150-$200 million in DIY sales in Canada last year); major lumber and building material chains (Beaver, Crown Zellerbach, Revelstoke, Cashway Building Centers and Lansing Buildall), and specialty outlets (the 90-unit St. Clair paint stores, Color Your World, and Plumbing Mart).

Other competitive pressures will come from the co-ops, which sold an estimated $125 million in lumber and building materials in 1981, with the two largest—Federated and United—having overall combined volume of over $1 billion; and buying groups like Home (with 1,000 members), Pro (whose Howden division services Beaver), Dominion, Dismat and Allont (which services Lansing). The first three account for 45% of the 6,000 hardware

(Continued on page 84)

### *Canadian DIY retail sales*




Source: Management Resource Group, Toronto; NHCN chart

*Discount, general merchandise and specialty chains have been slowly draining market share of home improvement sales from Canadian lumber and building materials dealers over the past five years. These figures include sales to contractors.*

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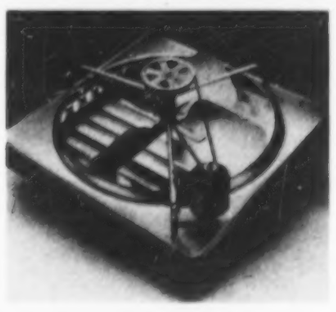

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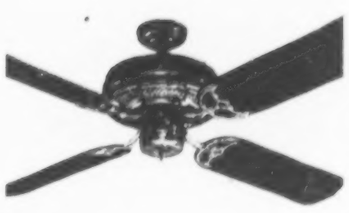

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*Home center perspectives '82*

# Single-category strength is Canadian dealers' aim

TORONTO—Home center retailers here, faced with stiff competition from a wider range of discounters, mass merchants and specialty chains, are looking to develop identifiable strengths in particular product categories as a means of attracting a greater share of the consumer market.

Their reactions to competitive pressures from a variety of retail segments, and the transitional steps these home centers have taken, serve to emphasize the general expansion of the DIY concept throughout Canada.

For instance, the 355-unit Canadian Tire started adding building materials departments to 13 of its units 10 months ago. At its 50,000-sq.-ft. Yonge Street store in Toronto, about 8,000 sq. ft. is devoted to this department. According to store general manager Steve Quinn, this expansion had a singular purpose.

"Building materials are a very low gross product line, but we added the department to increase our hard lines sales, which have jumped 80%-90% in a year. Already we've added 4,000 sq. ft. extra to our overall hardware department."

However Canadian Tire still likes to promote itself as a hard lines "supermarket." About half the store still merchandises housewares, automotive, toys and other department store fare. Unlike United States home center and hardware stores, the vast majority of saleshelp on Canadian Tire's floor is female.

At Beaver Lumber's 39,000-sq.-ft. unit a few blocks from the Canadian Tire unit, the image being portrayed is heavily lumber and building materials oriented. "We're 99.9% DIY, although that doesn't always extend to our hard line products, even though we carry as wide a selection as any of our competitors," said Andy Sibbald, Beaver's vice president/home centers.

He also lamented the lack of able saleshelp available, but insisted that customer service was one of the things that distinguished the chain from other surrounding retailers. Beaver's strengths, he said, lay in its wider range of price points (especially in lumber), its overall service (including installation), and the breadth of its merchandising.

The same claims were made by Sadru Juma, store manager for one of five Building Centres in the Toronto market. This unit, which did $3.2 million in 1981, generally has 16-18 people on the floor during the week, a figure that can double on the weekends, he said.

Juma also pointed to the stores free local delivery policy (with no minimum) and liberal return policy as inducements for customers.

However, while the store was extremely compact and well-

*(Continued on page 114)*

# *DIY becomes economic necessity*

*(Continued from page 21)*

stores in Canada.

"The Canadian home improvement market differs from the United States in two ways," said Greg Erwin, national sales manager for Peerless Faucet, Bowmanville, Ontario, speaking from his booth at last month's Canadian Hardware Show. "One, the hardware buying groups are very powerful and, two, there isn't the proliferation of chains you see in the United States. There may be more national operations, but the industry here is considerably more compact."

Erwin added that this concentration of market has caused home center retailers to be "tighter in their line offerings. For instance, there are probably 25 faucet manufacturers in the United States, but only five in Canada, and if you're not selling two or three of the major groups, you're not in the business."

Grant Wood, vp-sales and marketing for Stanley Works, Ltd., Burlington, Ontario, noted that Canadian retailers, because of the situation Erwin mentions, are less prone to take risks in their businesses. However, the acceptance of the DIY concept is beginning to reach a wider variety of retail operations.

The Canadian market, in fact, is undergoing the second stage of its evolution, according to Tom Ross, executive director for the Canadian Retail Hardware Assn. "We're now attracting the 'reluctant' DIYer, who feels he has to do the job himself out of economic necessity."

Ross pointed to some similarities and differences in the Canadian market, vis-á-vis its American counterpart. For example, he claimed that retailers have been thus far unsuccessful in combining retail and contractor merchandising under one roof, which he sees as detrimental to overall growth in the industry.

Like the United States, smaller Canadian companies are being swallowed by the bigger chains. "There are several strong smaller chains in the United States that are doing very well, but it's going to be very tough over the next few years for these types of operations here to survive—the bigger chains and buying groups are too strong."

He also pointed to the dilemma retailers are facing in wanting to increase in-store customer service, but finding a lack of knowledgeable salespeople in the labor pool. Several manufacturers also saw this as a real problem to be overcome before there is serious expansion in DIY merchandising in this country.

"While Canadian consumers are, in a lot of ways, more sophisticated than Americans, they still need in-store service," said Cam Colville, director of product service for Black & Decker Canada, Brockville, Ontario. "But lumberyards, as far as I can see, care very little about providing this service."

Colville noted perhaps a more significant development in buying patterns among consumers, and one that again points to the increased fragmentation of the Canadian DIY market.

Colville also said B&D would prefer to deal with the buying groups because "by and large, home center buyers are not as good, and there is too much disorganization in the chains.

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(See Page 55)

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Home center perspectives '82

# How-to book trend spells profits for DIY units

NATIONAL REPORT—One-third of all DIY books that reach consumers this year will be sold through home centers and other building materials outlets, according to Bruce King, national account manager for Lane Publishing, which produces Sunset Books.

Many titles will sell more than 150,000 copies in 1982, he said, while sales of 50,000 earns best-seller status in the trade book field.

With gross profit margins of 40%, ROI's above 350% and average sales per square foot of $300, according to publishers and distributors, home centers are profiting from the how-to book trend.

More important than direct profits, however, are the product sales that books generate. For example, National Plan Service, a supplier, claims that a retailer's investment of $350 in how-to plans can result in more than $44,000 in material purchases. While major book publishers, suppliers and retailers can not document the actual effect books have on sales, they believe it is significant.

"We know from informal surveys that books have an influence," said Sally Courtney, general merchandise manager at Hechinger, Landover, Md. "I've had customers ask me in stores, while holding a book, 'See this picture, where can I find this?'"

Hechinger devotes 16 linear feet on an 8-ft. gondola to books, plus a 4-ft. area at the registers for magazines. Certain titles are also cross merchandised in appropriate departments.

The depth, which is typical of the Hechinger approach to merchandising, is also consistent with the view of Al Birnbaum, president of distributor Federal Marketing, that educated consumers spend more money.

In addition, books save the retailer overhead, Birnbaum claims.

"Books are taking the place of unqualified help or no help," he said.

However, with about 4,000 titles on the market, according to National Plan Service, and a tempting variety of benefits for the retailer, there is a danger, says Sunset's King, that a store can be overstocked.

"I personally feel retailers tie up unnecessary money in inventory," he said. "A home center will be dissatisfied with books in general if it tries to become a bookstore. That includes Sunset.

"We would advise most retailers to cherry pick with our advice," King continued. "A Wickes would have a different assortment than a Handy Dan or a Grossman's," for example.

While Hechinger carries a deep inventory of books, selection is regularly adjusted according to sales, Courtney said.

Busy Beaver, the 31-store, Pittsburgh-based chain, now merchandises books on a double-sided, 8-ft. rack and sells about 600 books per month.

According to buyer Tony Clark, that operation will soon begin tracking individual titles.

"Titles change with the seasons and are checked about every four to six weeks," said Rick Miller, of Hill-Behan Lumber, St. Louis.

Home centers that have merchandised books most effectively, according to King, include Angels/Phoenix and Lumberjack, where he said individual stores of the six-unit Sacramento chain sell 40 or more books per week.

Six-unit Home Depot has successfully used books as sale items, according to Birnbaum.

"The books were promoted in a circular," he said. "In six weeks the four Atlanta stores went through 1,600 Time-Life books."

The $10.95 volumes wre discounted to $8.21.

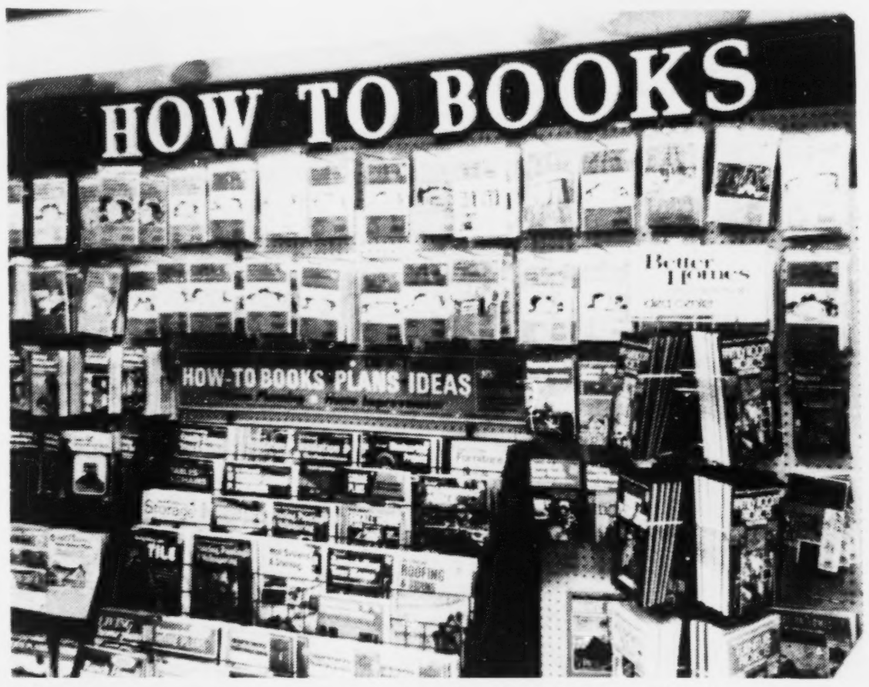
Of course, not all books sell well. Those that do tend to be hands-on oriented, said King.

"Almost the more basic the subject matter, the better the seller, as opposed to idea books," he said. "We also do well with books that focus on rooms."

Books on wiring, plumbing, kitchens, baths, decks and patios do well, said Birnbaum.

A woodstove title has been particularly strong recently, with 325,000 copies sold since publication in 1980. About 140,000 copies of a wall systems book have been sold since its publication last October. A new skylight title is scheduled for spring publication.

Titles that have been killed by poor sales include one about organizing bathroom shelves and another on seating systems, said Herb Zielke, a regional sales manager for National Plan Service.




*Most home centers place how-to books in high traffic areas, often near the cash registers. This display is located near the lumber desk at Eagle & Son, Toms River, N.J.* NHCN photo

## Bestselling DIY books

| Title | Date of publication | Total copies sold |
|---|---|---|
| Fireplaces | '72 | 1,485,000 |
| Kitchens | '73 | 1,370,000 |
| Patios & Decks | '76 | 1,240,000 |
| Bathrooms | '70 | 1,120,000 |
| Decks | '75 | 1,075,000 |
| Book Shelves | '75 | 930,000 |
| Solar Heating & Cooling | '79 | 550,000 |
| Basic Home Wiring | '78 | 495,000 |
| Hot Tubs | '79 | 420,000 |
| Wood Stoves | '80 | 325,000 |

*These are the current top 10 sellers in one series of DIY books.*
*Source: Lane Publishing, Menlo Park, Calif.*

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# Buying co-ops help smaller firms compete

By John Caulfield
*NHCN field editor*

NATIONAL REPORT—In 1981, retailer- and wholesaler-owned buying co-operatives reported aggregate sales in excess of $6.76 billion to over 22,500 dealers, 30%-40% of which were home centers.

While gigantic chains continue to dominate the home center industry, there are still many independents and smaller companies that stay competitive by linking themselves to the buying, merchandising and marketing programs offered by the co-ops.

These programs include in-store training of managers, private labeling of products, aggressive advertising strategies and, perhaps more important, a noticeable increase in emphasis on supplying retailers with the lumber and building materials necessary to place them more firmly in the DIY market.

However, every co-op is not the same. Dealers inevitably have a wide range to choose from to suit their particular market requirements, with each co-op offering varying programs, advertising deals, initial membership fees and costs to dealers for merchandise out of warehouse.

Co-operatives can be broken down into three separate and distinct categories: dealer-owned specializing in hardware; dealer-owned specializing in lumber and building materials, and wholesaler-owned serving as an intermediary between distributors and manufacturers.

The first group probably has the largest contingent of home centers in its fold, and its total membership is concentrated at the top: of the 20,619 members serviced by the 14 co-ops listed, 18,437 belong to either Cotter, Ace, HWI, American or Our Own.

These larger co-ops offer their members an average 30,500 sku's out of warehouses that carry $9.7 million in inventory in an average 368,924 sq. ft. Cotter and Ace have members in every state, with the other three servicing a more regional clientele.

Interestingly, HWI, Fort Wayne, Ind., appears to have made the greatest commitment to stocking lumber and building materials, with 50% of its $485 million 1981 sales coming from those products.

HWI is followed closely by the Butler, Pa.-based American (operating under the "Servistar" logo) with 25% of total sales coming from LBM. In addition, Ace, in Chicago, experienced an 18% increase in its lumber sales last year, coupled with a 50% increase in building materials, while over 1,000 of Cotter's 5,500 True Value members are now carrying these products, which are becoming a significant part of this group's merchandising offering. (Cotter and Ace began carrying LBM in 1979.)

Co-op services are structured differently from one group to another. Advertising arrangements between dealers and manufacturers for co-op money are one example.

The merchandising and marketing approaches offered by these co-ops are, by the admission of their respective managers, more similar than not, however, with each trying to position the retailer-member to get the highest return on products purchased.

However, one example of an innovative program recently came from Our Own, which lets its members establish retails for price tickets by selecting desired margins on every category of merchandise it stocks, with up to 1,000 individual items available for selection at specific margins.

The second tier of this first group is co-ops that typically fill in the gaps for members who already belong to the larger co-ops.

"We are regional and know the territory and the needs of our dealers better than some of the larger co-ops in the Midwest," said Hugh Laymon, general manager for Bay Cities Wholesale Hardware, Manteca, Calif. "That's why these dealers would sign on with us."

Belonging to one of the smaller co-ops can have a distinct advantage for the retailer's profitability. For instance, Houston's Handy Hardware Wholesalers (which has never officially filed for co-op status with the IRS), places 2% of total sales from each member into a fund that, when it reaches $2,000, is converted into preferred stock. "It costs the co-op nothing, and it allows the dealer to build up an equity with us," said president J. D. Tipton.

The second group of co-operatives handle the ordering, billing and shipment of lumber and building materials for their 880 collective members, charging them a monthly fee for these services based on the size of the member's purchase.

These co-ops have no ware-

*(Continued on page 70)*

## Dealer-owned hardware co-ops

| Company (Founded) | Sales (in millions) 1981 (1976) | Membership 1981 (1976) | No. of home center members (% of sales) | Membership fee | Lumber and building materials sales as % of total volume | Inventory (in millions) (sku count) | No. of warehouses (tot. sq. ft.) | No. of employees | Charge to retailer out of: (cost plus %) —warehouse —pool relay —drop ship | Advertising total (terms to dealers) | Rebate (% of warehouse sales) (1980) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cotter & Co.** Chicago (1948) | 1,350 (725) | 7,000 (5,700) | 1,500 (30) | Dealer buys $1000 worth of stock and pays $300 acquisition fee | 5 ($67.5 mil.) | $100 (25,000) | 11 (4,585,000) | 3,500 | 5-15 6 0-2 | $53 mil. (co-op charges pay for national ads; dealers pay 1% of purchases for regional ads; tab circulars cost dealers from 84.90/1000 (16 pp.) to $170.90/1000 (60 pp.) | 5 |
| **Ace Hardware** Oak Brook, Ill. (1924) | 694 (382) | 4,200 (3,283) | 1,386 (NA) | Dealer pays one-time $350 set-up fee and buys one share of class A stock ($1,000) and 40 shares of class C stock ($4,000) | 4.1 ($12.4 mil. lumber $15.8 mil. BM) | $85-90 (33,500) | 9 (3,128,636) | 1,750 | 10 6 0-2 | $15 mil. (dealers pay 0.8% on sales of first $250,000, but can arrange for own co-op money from manufacturers) | 3.2 |
| **Hardware Wholesalers Inc.** Fort Wayne, Ind. (1947) | 485 (241) | 2,500 (1,802) | 1,500 (60) | Dealer buys 20 shares of voting stock for $1,000 | 50 ($242.5 mil.) | $42.5 (33,000) | 4 (1,686,000) | 604 | doesn't have cost-plus charges, but builds a gross margin into the cost of the product, factoring in quantity bought | $8-10 mil. (tabs run from $35/1000 for 8 pp. to $130/100 for 24 pp.) | 12.25 |
| **American Hardware Supply** Butler, Pa. (1910) | 401.5 (227.6) | 3,737 (3,015) | 1,300 (40) | Dealer pays $800 initial fee | 25 ($100.2 mil.) | $48 (27,000) | 5 (1,668,400) | 826 | 5-15 (est.) 10 0-3 | $6.8 mil. | 8 (profits are distributed as cash rebate and preferred stock on dealer purchases) |
| **Our Own Hardware** Burnsville, Minn. (1913) | 100 (68) | 1,000 (550) | 300 (34) | Dealer pays set-up fee of $350 and buys $500 of voting stock | 7 ($7 mil.) | $23 (34,000) | 2 (650,000) | 300 | 14 6 2 | $1 mil. (tabs run from $45/1000 to $230/1000) | 4.5-5%, paid in commission, class A stock, and 20% in cash |
| **United Hardware Distributors** Minneapolis | 80 (47) | 640 (NA) | NA | Dealer invests in 50 shares of stock at $69 a share ($3,450) | NA | $7.5 (est.) (33,000) | 1 (420,000) | 300 | 7.22 NA 2 | NA | 2 (historically paid in cash and a three-year note) |
| **Handy Hardware Wholesalers** Houston, Tex. (1961) | 31.6 (12.1) | 350 (185) | 70 (25) | Dealer pays $200 set-up fee and buys $1,000 of stock | 3 ($948,000) | $4.6 (20,000) | 1 (100,000) | 103 | 9 NA 1 | $84,000 (charges dealers $150 a month for co-op, of which 25% are using) | $5.50 a share on 12,000 shares of preferred stock; (2% of retailers' sales placed in fund that, when it reaches $2,000, is converted into preferred stock) |
| **Reserve Supply** Minneapolis (1926) | 51.8 (60-1978) | 350 (NA) | 35 (20) | Dealer buys one share of stock ($4,112) | 90 ($46.6 mil.) | $6 (3,100) | 5 (400,000) | 172 | NA | NA (plans to offer a tab circular program in 1982) | NA (only 300 of Reserve's 1,300 total accounts, who are shareholders, share in the profit) |
| **Bay Cities Wholesale Hardware** Manteca, Calif. (1931) | 10 (8) | 200 (200) | 4 (NA) | Dealer pays minimum of $1,600 with total requirement of $5,100 | none | $1.2 (15,000) | 1 (90,000) | 38 | 10-20 6 2 | none (assist dealers in getting co-op; tabs cost $50/1000) | no rebate |
| **KVD Inc.** Winfield, W. Va. (1955) | 10 (6) | 140 (NA) | 31 (37.5%) | Dealer buys one share of stock ($100) | 2.5 ($250,000) | $1.2 (10,000) | 1 (100,000) | 20 | 5-15 NA 4 | $50,000 (NA) | 8 (stock issue) |
| **General Merchantile & Hardware** St. Louis (1937) | 9 (4) | 300 (125) | 15 (5) | Dealer is billed over a 10-yr. period for total commitment of $6,000 | none | $1.7 (18,000) | 1 (86,000) | 36 | 6-18 6 1 | $100,000 (NA) | 5 |
| **Connecticut Hardware Supply** Cromwell, Conn. (1936) | 6.2 (3.5) | 50 (50) | none | NA | none | $1 (25,000) | 1 (35,000) | 15 | NA | $96,000 (NA) | NA |
| **Assoc. Wholesale Hardware** Portland, Ore. (1954) | 1.8 (2.2) | 97 (110) | NA | Dealer buys 10 shares of common stock and subscribes to purchase 40 more | none | $0.435 (10,145) | 1 (40,000) | 8 | 14 10 2 | "Minimal" (tabs cost dealers $20/1000) | NA |
| **Master Distr.** Somerville, Mass. (1935) | 1.3 (1.6) | 55 (55) | 6 (5) | Dealer buys one share of stock ($2,000) | none | $0.250 (20,000) | 1 (55,000) | 10 | 16 8 8 | none | no dividend |

*Source: NHCN research and National Retail Hardware Assn., Indianapolis*

*Home center perspectives '82*

# Scotty's steps up Oriental import commitment

WINTER HAVEN, Fla.—Chairman Ray Cooney may prefer to describe Scotty's recent move into Oriental importing as "crawling before we can walk," but the 81-store chain is moving rapidly into the world market, making deals in Taiwan, Japan and Hong Kong for such products as ceiling fans, floor coverings, wood products, hardware and garden tools. The chain is also looking to make deals with firms in the People's Republic of China.

"We're not really big in importing yet," explained Cooney, "only new at it." Scotty's was the first United States firm to import ceiling fans and hand tools on a direct basis, according to Cooney, and the company would like to continue to deal directly with foreign manufacturers in the future rather than doing business through a trading company.

"Right now we're importing more sku's through trading companies, but more dollar volume directly," he said, the result of large purchases of ceiling fans directly from manufacturers in Hong Kong and Taiwan.

Currently, Scotty's imports account for about 5% of all merchandise purchases.

"The opportunities are great if you approach it right, a whole new avenue of products," Cooney declared. "But you first have to learn the ABC's of importing. You can't afford to stumble."

To guarantee that Scotty's doesn't stumble while learning the importing ropes, an informal import group has been set up within the company, consisting of operations coordinator Tom Leete and all product managers. The group meets periodically to evaluate import opportunities as they arise.

"The potential rewards of importing from the Orient are tremendous," said Leete, who sees Scotty's eventually buying up to 20% of its goods from overseas sources. "Some price differentials are astounding, 45%-50% off domestic prices on some items."

One of the keys, of course, is to buy in volume; and the importer must have the warehousing space and distribution facilities to accommodate large volume buys, Leete said.

One element not really necessary, according to Leete, is someone with international experience. "Buying from overseas is not really difficult, although everyone wants to tell you that it is," he said. "You just have to learn how to do business in a different environment, with a different culture, with people that have slightly different business ethics."

Scotty's first Oriental deal was made in mid-1980 with a Taiwanese hardware manufacturer. It was consummated entirely over telex.

"We got our leads from import/export trade publications, the China External Trade Development Council and even from the shipping labels on merchandise we had seen in different places," Leete said, from his Winter Haven, Fla., office. "We contacted some folks over the telex, got samples and made the deal, all by telex."

Most of those early deals were made directly with manufacturers, except in cases where there was a language barrier, not an uncommon problem in this sphere of purchasing.

"If we must deal with a trading company we prefer it to be a local group, we don't work through United States trading companies at all," Leete said. "We like to develop specialists within a given market. Right now I'm using a trading company to assist me in the importation of wall lauan and prefinished paneling from Tai-

*(Continued on page 114)*

## *Execs learn importing lesson*

**Looking for products to import from the Orient can have its trying moments, as Scotty's Tom Leete and Barry Hurt discovered recently on their way home from a business tour to Canton, in the People's Republic of China.**

**Suddenly, as the two execs were checking their carry-on luggage through the airport X-ray machines, three Red Chinese soldiers, armed with AK-47 submachine guns seized the luggage.**

**"The soldier picked up a hand cultivator from the luggage, showed it to the crowd, and they all laughed. Another picked up a trowel, displayed it to the crowd, and got the same hysterical response," Leete recalled. "I'm sure they were all thinking 'What stupid Americans to try and carry these aboard the plane.'"**

**Leete and Hurt were escorted to the main luggage area, where they tried to explain to the soldiers, through an interpreter, that the samples were harmless garden tools, not weapons for hijacking purposes. Fortunately, the two had letters from the manufacturers attesting to that fact. The soldiers let Leete and Hurt keep the tools, but only after the pair transferred the tools to their other luggage stored in the plane's cargo bay.**

# *Buying co-operatives*

*(Continued from page 68)*

house facilities, and their strength lies almost exclusively in the product buys they can arrange for the individual members. However, membership within this co-operative segment appears to have fallen off slightly, even though together they did $512 million in volume at cost. In addition, officials from each of the four co-ops claim at least 50% of their total accounts fall under the "home center" classification, sustaining these buying organizations' importance in the industry.

The third group represents a combination of buying co-operatives whose members are wholesalers, and it perhaps is the most formidable, in terms of membership, of the three co-op levels.

Sales from this group in 1981 totaled $3 billion (including volume from Associated Hardware Buyers, Gainesville, Ga., which refused to release any further information). These co-ops' 179 wholesale members have a total of 253 distribution centers and, as a group, service most of the United States.

What distinguishes these co-ops from the other two groups is that a substantial part of their revenues comes not from service charges to wholesalers but from fees to manufacturers wanting to get their products to a wider retail audience.

Two of these co-op buying organizations will be looking for more corporate recognition in 1982 as well. Pro Hardware recently announced it will spend in excess of $3 million in advertising this year, and Liberty has a $2 million ad campaign in the works.

These expenditures for advertising may be a clue to the pervading feeling that co-ops are under competitive siege around the country. The huge home center and discount chains are powerful enough to buy directly and strike their own deals. Management services organizations, like Builders Mart of America, Greenville, S.C., which has grown from servicing 373 retail locations in 1977 to 1,167 last year (despite a $7,200 affiliate initiation fee) with sales of $290 million (80% of which comes from LBM sales), offer dealers an enticing alternative to co-operatives that, at times, seem to be providing redundant programs.

However, it is unlikely that co-operatives are going to go down without a fight, and several co-op officials feel their position, with respect to the home center industry, is as solid as ever.

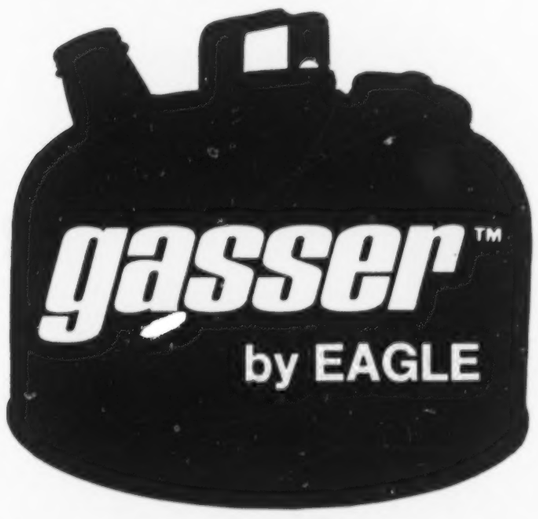
"Our greatest strength is that we're a retail-oriented company," said Paul Smith, vp-marketing for HWI. "We give our dealers a complete system—merchandising, training, etc.—to allow them to compete successfully with the major chains. That's our reputation."

## *Lumber and building material co-ops*

| Company (founded) | Sales (in millions) 1981 (1976) | No. of dealers (total accounts) | Dealer fee | % of home center members (% of total sales) | % of sales from lumber/ building materials | Employees | Advertising | Rebate |
|---|---|---|---|---|---|---|---|---|
| **Lumbermans Merchandising** Wayne, Pa. (ELMCO) (1935) | 316 (NA) | 165 (500) | NA | 55 (55) | 55 lumber 45 BM | 100 | none corporately, marginal co-op | NA |
| **Central Building Supply** (CBS)—Burr Oak, Mich. (1937) | 100 (30) | 480 (NA) | $100 fee plus quarterly charge based on co-op expense | 50 (50) | 100 (L/BM) | 22 | none (co-op part of quarterly fee) | Dealer earns dividend based on sale of certain sku's they are required to buy |
| **Progressive Affiliated Lumbermen** (PAL)—Grand Rapids, Mich. (1936-37) | 50 (35) | 175 (193) | 12 shares of stock ($20 a share) plus $100 processing fee and optional $100 for michofiche use | 95 (95) | 100 | 10 | none (co-op passed on to dealer based on volume) | "Any money left over after expenses is turned over to dealers" |
| **ENAP ("Everybody Needs A Profit")**—Newburgh, N.Y. (1935) | 46 (25) | 60 (98) | One share of stock | 50 (50) | 100 | 16 | none (beginning co-op offering in 1982) | NA |

*Source: NHCN research, National Retail Hardware Assn., Indianapolis*

**Here's a real**

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## *Buying groups for wholesalers*

| Comp. (founded) | Sales (in mils.) 1981 (1976) | Wholesaler membership 1981 (1976) | Affiliated dealers (total) accts.) | % of DIY accts. (% of total sales) | Initiation fee | Wholesale distribution centers | Inventory (in mils.) (sku's—avg. warehouse) | Employees | Adv. co-op (wholesalers) | Rebate |
|---|---|---|---|---|---|---|---|---|---|---|
| **Liberty Dist.** Des Plaines, Ill. (1935) | $810 (520) | 30 (29) | 3,000 (20,000) | 30 (29) | $5,500 | 57 | 130 (35,000) | 42 | $700,000 | confid. |
| **Assoc. Bldg. Materials** Green Valley, Ariz. (1975) | 700 (200) | 53 (27) | no affil. (30,000) | NA | NA | 100 | NA | 3 | ($950,000) $2,500 (NA) | confid. |
| **Pro Hardware** Stamford, Ct. (1956) | 546 (395) | 22 (18) | 4,512 (18,000) | 38 (NA) | $2,000 | 29 | 110 (27,000) | 24 | $1.75 mil. ($1.3 mil.) | NA |
| **Sentry Hdwr.** Cleveland (1967) | 475 (275) | 17 (10) | 5,000 (NA) | NA | After four years with Sentry, wholesaler buys one share of stock (undisclosed amount) | 24 | NA (30,000) | 10 | $4 mil. ($3.5 mil.) | confid. |
| **Val-Test Dists.** Chicago (1960) | 365 (250) | 32 (27) | 800 (NA) | NA | Franchise fee, variable on distributor's size, which becomes a co-op allowance (from $100-$400) | 43 | 64.5 (19,000) | 10 | $500,000 (NA) | confid. |

*Source: NHCN research, National Retail Hardware Assn., Indianapolis*

**LUMBER REPORT**

## *Flexibility is crucial for 80's*

# Take the initiative in a changing industry

**By Phil Chiricotti**
*Special to NHCN*

For the nation's lumber dealers, and indeed, businessmen generally, there can be little doubt that we are in the worst recession since World War II. Yet the Administration continues to fight the phantom enemy of inflation while the depressionary torpedo heads straight for us.

Even with inflation dropping, real interest rates have soared to record levels. Rates have moved back up despite a less restrictive Fed policy and it is clear that rates are going to remain more volatile.

As we enter 1982, the underlying strength of the United States economy is worse than at anytime since the Great Depression and basic industry survival is at stake.

### Not desirable

The American propensity to move is slowing and the housing industry is fighting for its life. National priorities have changed and subsidized credit is no longer available to the housing industry. Homes are no longer appreciating, household formations are declining, the move-up market has soured, the availability of credit is diminishing, the S&L problem will take a decade to work out, affordability is overpowering demand, rates cannot come down until we reliquify or until credit demand drops, the fixed-rate mortgage is history and operating and maintenance costs continue to skyrocket.

In short, the economics of home ownership have changed and the home is no longer an investment, but rather a place to live. As a result, conventional housing is going to become less and less viable in the decade ahead.

Instead of crying about things, certain builders are taking the initiative. You should do the same.

Builders and developers are taking a hard look at factory-built housing and this is particularly important to you as a potential supplier. In order to survive during the next few years, you are going to have to look at noncommodity items, the DIY market, and components, i.e., roof trusses, wall sections and floors.

The need for specialization and diversification is here. The distribution system is in disarray and the manufacturers are going to try to get closer to the consumer, but some are making the sales agent idea work. On the other hand, the manufacturers that did go direct seem to be having the biggest receivables problem today.

In any event, wood specie preference is going to change with the economics, and logistics are going to become increasingly important. The old-time lumberyard can't be all things to all people and a shake-out-restructuring period is surely ahead. Before it is over, the wholesale/retail functions are going to overlap.

Opportunity doesn't knock once; it keeps on knocking, but you must approach your business in an intelligent manner to take advantage of opportunities. You must control your exposure, but more importantly, you must be willing to change your strategies as market conditions change.

Hardwork and perseverance are no longer enough, you must be willing to keep on learning and acknowledge that there is no investment technique or strategy that remains attractive indefinitely. You cannot change the existing conditions, but you can still achieve realistic goals.

Distribution patterns are changing and you must acknowledge your environment to accomplish your goals. New locations and new product lines may be required. If you want to go direct, and the mills are worried about credit, pay in advance and ask for a discount. Hire a profit-planning manager and compute store and product-line ROI.

Use discounted cash flow measurements and compare them to your cost of capital. Reload operations and basis trading are going to become increasingly important, but those reload bargains may diminish once the markets normalize. In any event, the trading center concept is going to flourish. Inventory control is no longer a luxury. The era of the cash and traffic manager is here. We are entering a service period and it is going to be increasingly difficult to operate on borrowed capital.

Check into leasing, learn about zero-base budgeting and shop for terms. It won't be business as usual during the years ahead, but there will be new opportunities. In order to capitalize on these opportunities you must be liquid, avoid exposure and acknowledge the changing business climate. Most of all, you must know when you are speculating.

The recession continues to deepen and any recovery will be subnormal until reliquification takes place. Without the deficits and after reliquification, Reaganomics might work—even though we already have substantial excess capacity. But as a result of the deficits and the disarray in fiscal policy, it remains a high-risk program. The need for a credible budget has never been greater and unfortunately, the Administration does not understand this.

One sympathizes with the President. There is no objection to his intentions. But one cannot have monetarism, deficits, guns, butter and lower interest rates all at the same time.

Observers are becoming alarmed over the inability of the recession to benefit the credit market, i.e., loan demand has not dropped off and the quality of credit continues to deteriorate. When the credit expansion cycle fails to aid an economic contraction, it compounds the problems through increased debt service and this is what causes bankruptcies.

Others feel that we are entering a depression that will cause major illiquidity and debt payment problems. They also feel that the 1980's will witness a general decline in the standard of living. Anyway you look at it, the 1980's are going to be a period of uncertainty.

Therefore, you must prepare yourself psychologically as well as financially by continuing to review all options. Clearly, there is little room for error in your planning and you must remain flexible.

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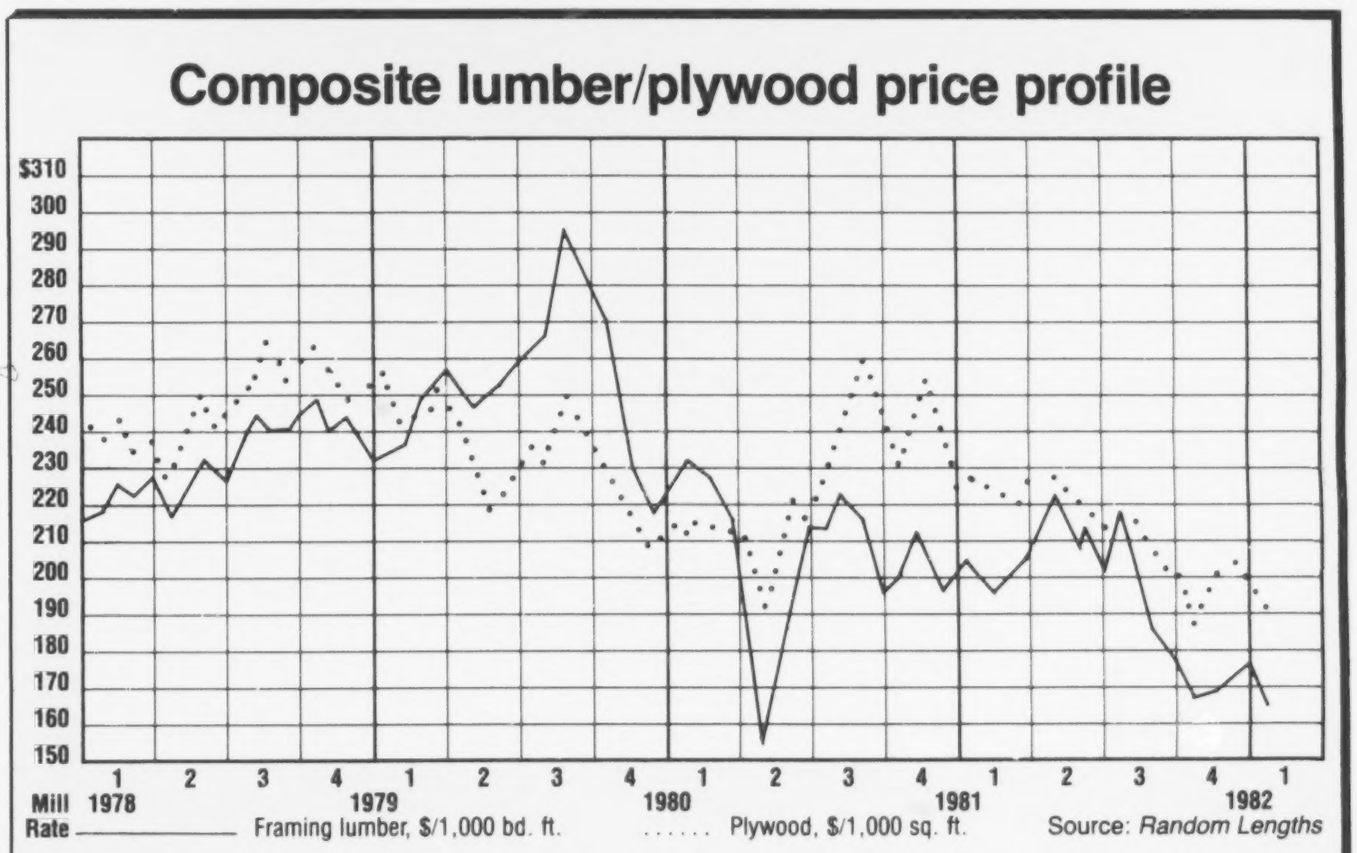
*Phil Chiricotti is the editor of* Chiricotti's Lumber and Plywood Forecast, *and is director of forest products for K & S Commodities, Chicago. This article is the introduction to a series, appearing exclusively in* National Home Center News, *that will focus on how changes in the production, distribution and marketing of lumber, plywood and forest products will affect home center buying decisions.*

## Composite lumber/plywood price profile




*The market is nearing equilibrium, with January and February prices hovering at the below break-even level. Plywood is averaging $190 for 1,000 sq. ft., and framing lumber at $162, based on* Random Lengths' *weighted measure of seven key plywood items and nine key framing items.*

## FUTURES

**Two weeks ended Feb. 19, 1982**

| | High | Low | Close | Previous Week | Open* Interest | Contract High | Contract Low |
|---|---|---|---|---|---|---|---|
| **LUMBER** (CME)—130,000 bd. ft. spruce-pine-fir 2x4's; $ per 1,000 bd. ft. | | | | | | | |
| March | 146.30 | 138.00 | 139.40 | 141.80 | 2,353 | 247.50 | 138.00 |
| May | 153.10 | 144.00 | 147.60 | 148.30 | 4,028 | 220.30 | 144.00 |
| July | 164.20 | 155.70 | 160.70 | 159.60 | 1,210 | 224.50 | 155.70 |
| Sept. | 171.00 | 165.00 | 167.00 | 168.70 | 734 | 229.50 | 165.00 |
| Nov. | 171.80 | 166.10 | 168.30 | 168.50 | 739 | 224.50 | 166.10 |
| Jan. '83 | 179.00 | 172.70 | 175.70 | 177.20 | 551 | 205.50 | 172.70 |
| March | 187.50 | 184.00 | 184.00 | 186.50 | 22 | 209.80 | 183.00 |

**Total Vol. (Through 2/19): 21,140** — **Previous Two Weeks: 21,922**
**Total Open Interest (As of 2/18): 9,674** — **Previous Week: 9,474**
**Cash Price: $131.32** — **Previous Week: $127.40** — **Year Ago: $147.00**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **PLYWOOD** (CBT)—76,032 sq. ft. ½-in. ext. 4/5-ply; $ per 1,000 sq. ft. | | | | | | | |
| March | 182.30 | 173.20 | 174.90 | 178.30 | 1,335 | 252.00 | 173.20 |
| May | 188.30 | 180.20 | 182.00 | 184.60 | 1,914 | 241.00 | 180.20 |
| July | 194.20 | 187.00 | 187.50 | 190.30 | 505 | 219.00 | 187.00 |
| Sept. | 199.00 | 192.50 | 193.50 | 196.30 | 502 | 224.50 | 194.50 |
| Nov | 204.00 | 197.60 | 199.00 | 202.70 | 248 | 226.50 | 200.50 |
| Jan. '83 | 211.00 | 203.00 | 204.00 | 207.70 | 72 | 215.00 | 204.00 |

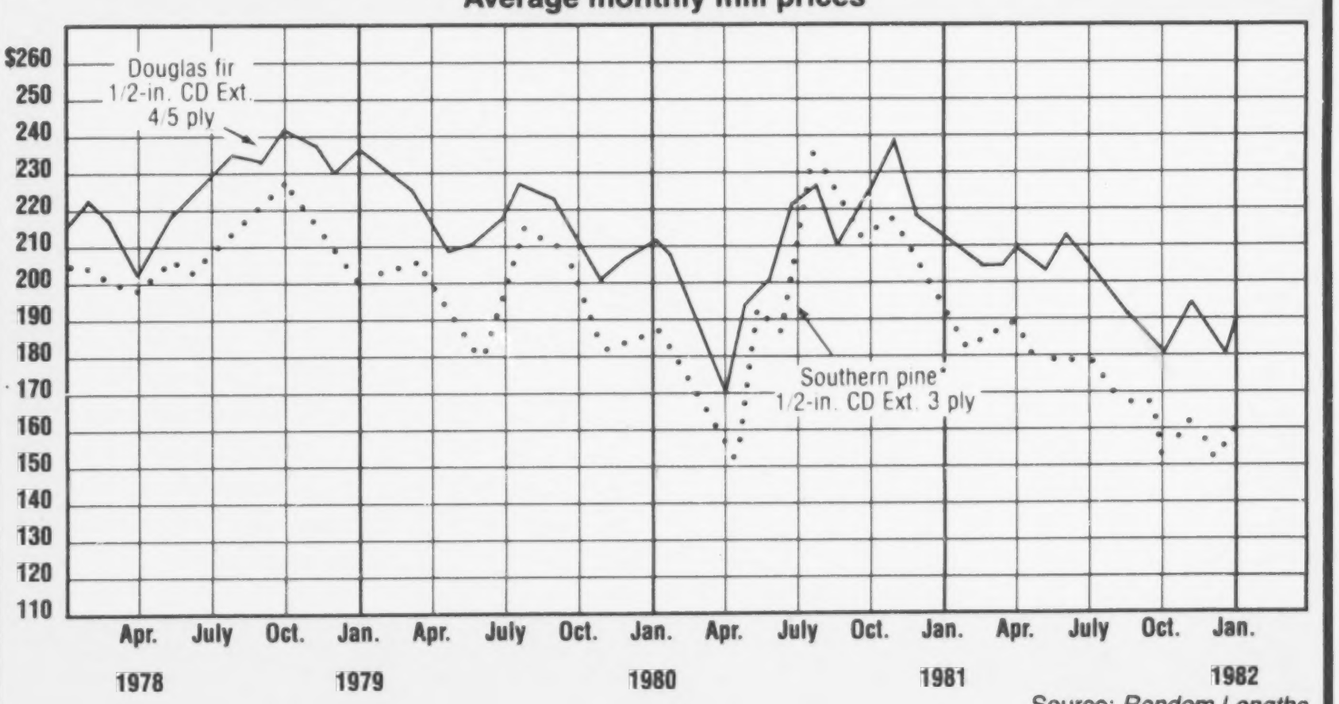
**Total Vol. (Through 2/19): 8,260** — **Previous Two Weeks: 3,905**
**Total Open Interest (As of 2/18): 4,576** — **Previous Week: 4,788**
**Cash Price: $170.52** — **Previous Week: $174.44** — **Year Ago: $198.94**

| COMMODITY RESEARCH BUREAU INDEX: | This Week | Previous Week | Year Ago |
|---|---|---|---|
| | 258.6 | 263.4 | 305.1 |

CME—Chicago Mercantile Exchange — CBT—Chicago Board of Trade
*Figures for Thursday, Feb. 18.
Open Interest is the number of outstanding contracts for each delivery month not liquidated by an offsetting transaction or fulfilled by delivery.

## Commodity close-up: Western & Southern Plywood

**Average monthly mill prices**




*In December Western 4/5 CDX ½-in. plywood reached its lowest price over the last several months and southern 3-ply plywood reached its highest, when both commodities were sold at $173. Western prices were undercut by wholesalers selling previously purchased wood.*

*At the same time, Southern prices were strengthened by a strong Texas market. Prices for Western plywood then rose in the beginning of the year when supply was lessened. Southern prices, meanwhile, declined as major producers shifted significant volume from mills to distribution centers.*

# FINANCIAL NEWS

## SALES & EARNINGS

| Company | Period Ended | Current Sales* | Year-Ago Sales* | % Change | Current Earnings* | Year-Ago Earnings* | % Change |
|---|---|---|---|---|---|---|---|
| American Maize Products | 12/31-4th qtr. | $ 101,259 | $ 105,168 | – 4 | $ 3,943 | $ 3,052 | 29 |
| | 12/31-Year | 423,153 | 413,707 | 2 | 12,208 | 10,706 | 14 |
| Diamond International | 12/31-16 wks. | 371,000 | 430,000 | –14 | 6,800 | 14,600 | –53 |
| | 12/31-Year | 1,341,000 | 1,282,000 | 5 | 31,800 | 40,600 | –22 |
| W. R. Grace | 12/31-4th qtr. | 1,759,337 | 1,707,418 | 3 | 81,721 | 68,115 | 20 |
| | 12/31-Year | 6,520,817 | 6,135,654 | 6 | 361,331 | 287,438 | 26 |
| Lowe's | 1/30-5 wks. | 54,600 | 67,000 | –18 | — | — | — |
| Wolohan Lumber | 12/31-4th qtr. | 18,481 | 25,521 | –28 | 342 | 284 | 20 |
| | 12/31-Year | 88,788 | 99,188 | –10 | 972 | 796 | 22 |

*$ in thousands

# Evans' '81 retail net climbs 2% to $53M

PORTLAND, Ore.—Retail performance at Evans Products-owned stores was a bright spot in a mostly lackluster 1981 for the company.

Despite a sluggish fourth quarter, which showed operating profits falling 14% to $13.5 million on a 1% sales gain to $176.5 million, Evans' retail businesses boosted their operating profits 2% for the year to $53 million on a sales increase of 9% to $756.2 million as compared to the same results in 1980.

Both annual revenue and earnings figures were record highs.

Overall, Evans' net income fell 57% during 1981 to $17.6 million on a 5% revenue increase to $1,537.2 million, officials said.

Record high interest rates and unfavorable economic conditions adversely affected the company last year and its projected near-term results forced Evans to cut its common stock dividend from 40¢ to 25¢ per share for the first quarter, company officials said.

Retail group sales during the year were aided by a 12% gain in DIY volume, which accounted for 84% of business, up from 82% in 1980. The DIY market also helped produce the slight fourth quarter increase in revenues because Evans' business to the housing market decreased.

Operating expenses increased for the quarter and resulted in the year-to-year decline in the period's earnings.

Evans operates stores under the Grossman's, Moore's, Lindsley, Alamo Enterprises and Hubbard & Johnson names.

# *Study sees $98B home/auto biz by '95*

CLEVELAND—By 1995 the DIY home and auto market will total $98 billion, a fourfold increase from 1980 figures, with the wholesale market reaching $63 billion.

DIY home alteration and repair products will be the fastest growing DIY market segment by 1995 at nearly 11%. Total DIY auto product shipments will approach $19 billion. Overall, DIY will represent 42.7% of the home and auto repair market, up from a 1980 figure of 25.9%.

These predictions are included in a 147-page report published by Predicasts, the Cleveland-based business information and market research firm.

Predicasts attributes the boom to rising costs for professional labor and new homes and autos, as well as population gains in key DIY age groups and increasing economic pressures.

They cite the growing interest in home remodeling, the proliferation of home centers and consumer lumber stores and the sharply rising price of many wood products as factors stimulating growth.

Predicasts believes that particleboard and protection devices will be the fastest growing DIY home products by 1995, with that total market reaching $44 billion.

Adversely affecting the DIY auto products market will be longer-lasting electronic systems.

# Beatty

*(Continued from page 3)*

and turned over its assets to the Michigan National Bank.

Ironically, shortly thereafter, the police arrested the former employees suspected of theft on unrelated charges, including heroin dealing, in one instance, and immigration law violations.

"These men were all longtime, trusted employees of the company," Beatty recalled, more in sadness than in anger. "I considered them friends. One of them coached a local softball team which included my son. He even took the team to Florida for a tournament."

Beatty's one remaining asset is the 840-acre Black Forest Ranch, a peat moss bog located near Sheboygan, Mich. Although Beatty appraises its value at $3 million, he is on the verge of accepting an offer of $1.65 million, most of which will go immediately to the bank.

"Despite the fact that the bank sold all the lumber, machinery and trucks for $1.2 million, I now owe them $1.4 million because of the interest rates," Beatty said, with more than a hint of disbelief.

Whatever is left over after Beatty settles with the bank will go to his unsecured creditors, including Weyerhaeuser, who have been "patiently" awaiting the results of the ongoing Beatty saga.

"I'd like to pay them 100¢ on the dollar," Beatty said, who confided that they might have to settle for half now and make a deal on the balance.

Beatty feels he could have done more to prevent the thefts. "I should have had better security at the yard at night, either myself, my brother [partner] or a security guard," he said. "Every shipment leaving the yard should have been checked. A big mistake was leaving blank tally sheets around where the thieves could find them and use them."

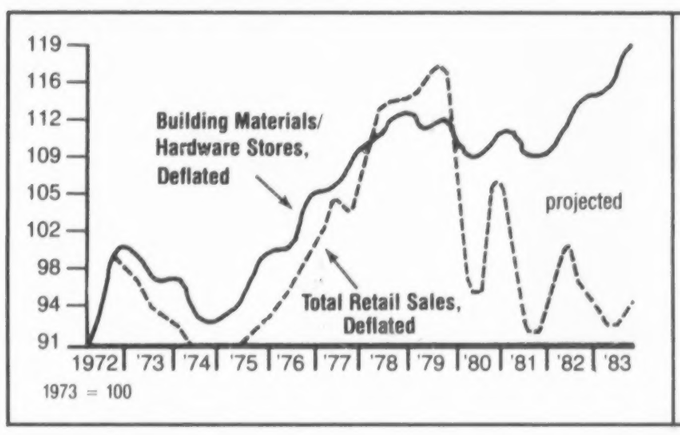
Beatty also said next time, he would take out fidelity bond insurance on all employees, rather than relying on the so-called umbrella "all-theft" policy, as he did.

Despite everything he's been through Beatty would like to get back into the lumber business, assuming a favorable settlement with the insurance company.

"After 33 years in the lumber business, it takes more than this to sour me on it. It's still a great industry, as far as I'm concerned and I can't wait to get back into it."

# L/F ECONOCYCLE

# DIY sales recovery projected at slower rate




**Building Materials & Hardware**

**Sales Change By Quarter**

| | '81 1Q % | '81 2Q % | '81 3Q % | '81 4Q % | '82* 1Q % | '82* 2Q % | '82* 3Q % | '82* 4Q % | 12-Month % Change '80 % | '81 % | '82* % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales include Inflation | 8.4 | 15.2 | 7.4 | – 6.2 | –10.1 | 0.7 | 10.7 | 15.0 | – 3.2 | 6.0 | 3.6 |
| Real sales (Deflated)* | – 1.2 | 6.0 | 0.5 | –11.1 | –13.1 | – 2.9 | 3.7 | 5.5 | –12.4 | – 1.6 | – 2.2 |

Base = Dec. 1981 Sales
*Projected

After months of nagging pessimism, consumers seem to be turning confident about the economy again. But they still aren't ready to shell out hoarded disposable dollars for major purchases any time soon, according to the latest soundings of the Conference Board.

This outlook goes hand-in-glove with current Federal projections for general retailing over the next few months.

Consumer spending gains will probably be modest at best, the new Conference Board study indicates. Its latest consumer confidence index reading (calculated on a 1969-70 base of 100) moved up to 61.2 in January, an increase of 1.8 points over December.

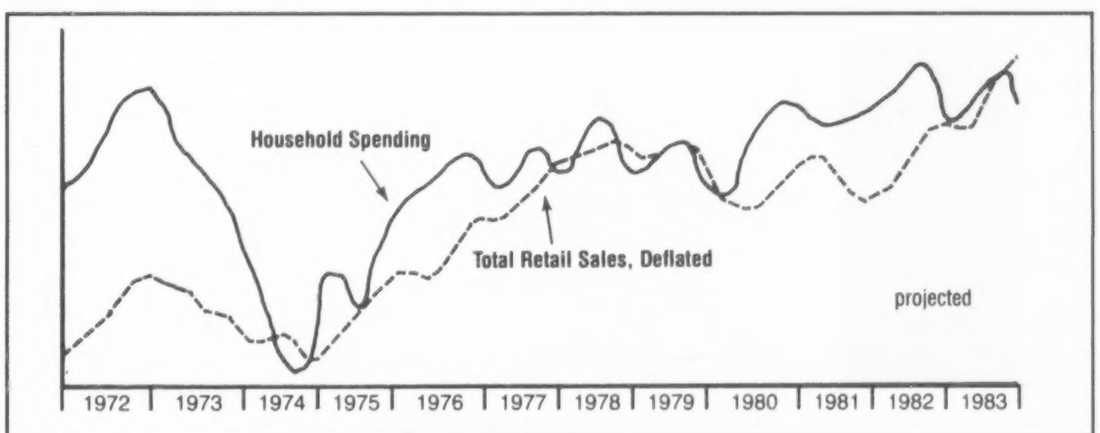
The turnaround in attitude hints at an improving economy and mirrors L/F's own spending indicator (below) which now sees a clear "recovery path" opening up for general retailing in the second quarter

**The L/F Econocycle projection** is for a slower recovery this year in the DIY sector than previously expected —forcing a wider gap between DIY and total retailing in coming months.

First quarter sales in home building/supplies and home center retailing should show a 12%-13% decline, based on recent Econocycle computer readings.

DIY sales should begin improving next month, but overall will continue below 1981 levels.

"Real" sales for general retailing, on the other hand, will also be off 1%-2% next month, roughly half the rate-of-decline in the first three months of 1982. The overall retail economy, in fact, should have a healthier glow as sales nose upward through the second period.




**Sales/Include Inflation**
**% Change By Quarter**

| | | Total Retail Stores | Food Stores | Eating & Drinking | Building Materials Hardware Stores | Drug Stores | Furniture & Appliance Stores | Apparel Stores | General Merchandise Stores | GAF Stores |
|---|---|---|---|---|---|---|---|---|---|---|
| 1981 | 1Q | 9.9 | 10.5 | 7.4 | 8.4 | 10.4 | 8.4 | 9.8 | 7.9 | 8.4 |
| | 2Q | 12.3 | 10.7 | 11.4 | 15.2 | 10.3 | 9.0 | 8.7 | 12.5 | 10.9 |
| | 3Q | 10.2 | 9.4 | 10.0 | 7.4 | 8.7 | 5.0 | 8.3 | 9.5 | 8.2 |
| | 4Q | 6.2 | 7.9 | 9.8 | – 6.2 | 5.2 | 2.5 | 5.9 | 5.0 | 4.6 |
| 1982 | 1Q* | 3.1 | 7.6 | 8.3 | –10.1 | 5.4 | 1.3 | 2.3 | 2.5 | 2.2 |
| | 2Q* | 3.8 | 7.4 | 7.6 | 0.7 | 5.3 | 7.5 | 4.4 | 2.2 | 3.8 |
| | 3Q* | 5.4 | 8.0 | 11.4 | 10.7 | 6.3 | 9.3 | 4.9 | 6.5 | 6.7 |
| | 4Q* | 7.6 | 9.1 | 10.9 | 15.0 | 6.9 | 8.1 | 5.7 | 10.2 | 8.8 |
| % change 12 mos. | 1980 | 7.5 | 10.8 | 8.7 | – 3.2 | 11.9 | 4.7 | 4.6 | 5.9 | 5.4 |
| | 1981 | 9.6 | 9.6 | 9.6 | 6.0 | 8.6 | 6.2 | 8.1 | 8.6 | 8.0 |
| | 1982* | 5.0 | 8.0 | 9.6 | 3.6 | 6.0 | 6.5 | 4.3 | 5.4 | 5.4 |

**Real Sales (Deflated)***
**% Change By Quarter**

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1981 | 1Q | 0.4 | – 1.4 | – 2.1 | – 1.2 | 0.2 | 2.2 | 5.9 | 0.9 | 2.2 |
| | 2Q | 3.6 | 0.4 | 2.1 | 6.0 | 0.3 | 3.0 | 4.5 | 5.8 | 4.9 |
| | 3Q | 2.4 | 1.2 | 1.1 | 0.5 | – 1.1 | –0.6 | 3.9 | 3.2 | 2.5 |
| | 4Q | – 0.4 | 3.0 | 1.6 | –11.1 | – 3.9 | –3.1 | 2.6 | – 0.3 | – 0.3 |
| 1982 | 1Q* | – 2.4 | 1.9 | 1.8 | –13.1 | – 2.1 | –4.6 | –0.8 | – 2.4 | – 2.5 |
| | 2Q* | – 0.6 | – 1.0 | 0.9 | – 2.9 | – 0.3 | 0.2 | 1.3 | 2.7 | – 1.2 |
| | 3Q* | 3.5 | – 0.9 | 4.1 | 3.7 | 2.1 | 1.1 | 2.0 | 1.3 | 1.4 |
| | 4Q* | 5.4 | – 0.4 | 3.3 | 5.5 | 3.0 | 0.0 | 2.2 | 3.6 | 2.6 |
| % change 12 mos. | 1980 | – 2.7 | 3.0 | – 0.7 | –12.4 | 2.5 | – 1.4 | 0.1 | – 1.5 | – 1.2 |
| | 1981 | 1.5 | 0.8 | 0.6 | – 1.6 | – 1.1 | 0.4 | 4.2 | 2.4 | 2.3 |
| | 1982* | 1.2 | – 0.1 | 2.5 | – 2.2 | 0.6 | –0.9 | 1.2 | – 0.1 | 0.0 |

Base = Dec. 1981 Sales
*Projected

### About Econocycle

The source for the L/F Econocycle index is the Econostat Applied Economic Research Unit of The Hague, Holland. This unit consults for Government and major corporations on three continents. Its projection techniques are based on the Econocycle System, a computerized system designed by the Econostat team of economists.

Because of the changing pace of inflation in the United States, retail sales figures in the L/F Econocycle projections have been adjusted to take account of inflation. All statistics are shown in *real* terms. The charts (above, facing) represent the trend cycle. The data has been seasonally adjusted and smoothed—and is updated each month. Source for current sales and the deflator series is the U.S. Department of Commerce.

Where an *Index Base* is indicated, the data is converted to index numbers, starting from a common base (= 100) in order to establish meaningful performance comparisons.

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**Merchandising flooring . . . pp. 19-2**

National
# Home Center News®

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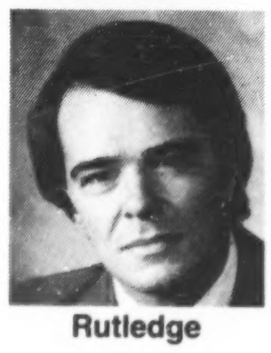
$7 per year $2 per copy

## Rutledge to show-goers: Plan on lower inflation

CHICAGO—Dr. John Rutledge told home center retailers, manufacturers and distributors they should look toward changing planning strategies for their businesses based on inflationary expectations.


Rutledge

Rutledge, president of the California-based Claremont Economic Institute, proclaimed "the biggest news in the Western world is that the inflation rate has changed and the rise in this country is over because the Federal Reserve has stopped allowing the Government to print money and throw it around."

He told an audience of approximately 3,000 listening to his keynote address at this year's Home Center Show that as the inflation drops, the long-term effects will be a strengthening of the financial market.

In turn, that will mean more capital will be available to companies for growth and expansion.

Describing himself as "not a supply-sider, but one who is antigovernment and anti-inflationary," Rutledge proclaimed that "the Reagan program is in trouble, mainly because it has been interfered with by politics, which has subsequently caused a paralysis in the money and bond market."

He explained that unless spending cuts accompany tax cuts, "Government will still have to find ways of paying its bills, with one of three instruments: more taxes, more borrowing or more printing of money."

Rutledge detailed how the cost of borrowing money or printing money places a greater tax burden on the public than direct taxation. He described income taxation as the "fairest and cheapest" way for Government to finance itself.

"Capital facilities—like factories, cities, roads—are wearing out because people do not have the long-term financing available to fix them," Rutledge said. "You can not build without strong financial markets, and capital investment in the United States has essentially stopped."

(Continued on page 46)

## Grace consolidates regions for West, Midwest chains

By Kenneth Schept
*NHCN senior editor*

NEW YORK—W. R. Grace has again realigned its $800,000,000 home center division.

The changes consolidate the Angels and Cashway chains into a Western Region headed by Cashway president John Markley and the two Handy Dan entities into a Central Region under Dave Saks, president of Handy Dan/Southwest.

The position of home center division executive vice president was also created, and filled with a career Grace employee, Robert S. Downie, 47, who will report to Frank Denny, division president.

"We feel this move to consolidate will provide the advantages of scale to our central and western operations," Denny explained in a recent Grace release.

He told *NHCN* that the need to streamline management functions also played an important part in the decision to reorganize. An informed source suggested that the politics of corporate survival may have also been a factor.

Major personnel moves related to the changes include the departure of Nick Einfeld, who headed Handy Dan/Midwest and Angels/Arizona.

Buck Melton, former Angels/California president, will work for Grace corporate, New York. Former Handy Dan/Midwest vice president, Bob McNulty, is expected to become a western merchandising vice president.

Western headquarters will be in City of Commerce, Calif. The central region will be run from San Antonio. Handy

(Continued on page 46)

### Grace's home center realignment

*Under the realignment of Grace's home center division, Handy Dan/Southwest and Midwest are combined into a central region under Dave Saks headquartered in San Antonio. Angels/Arizona, Angels/California and Cashway form the west region run by John Markley from City of Commerce, Calif.*

**Buys 5 Lumbermen's**

## Lanoga invades Western market

By John Caulfield
*NHCN field editor*

SEATTLE—The $185 million Lanoga Corp. appears to be planning a major expansion drive that would make it a significant force in the West Coast home center market.

The company, which owns the 110-unit United Building Centers chain in Winona, Minn., and the 10-unit Spenard's in Anchorage, recently purchased five Lumbermen's of Washington units for $5 million.

Ted Tenace, Lanoga's president, said he plans to use the Lumbermen's stores as a basis for a "third division" of his company, with home centers eventually operating throughout Washington, Oregon and California.

He is currently looking into the acquisition opportunities in the Puget Sound market and in southern California "up through the San Joaquin Valley," he said. When asked about companies he was interested in and talking to, Tenace would only confide that "they are large chains, not one- or two-unit companies."

He noted, however, that northern California was "too competitive" at the present time to consider building any units there. "Lumberjack, Goodman's, and Orchard Supply, among others, make northern California less attractive to us right now."

In Lumbermen's, Lanoga has acquired a company that did $20 million in 1981 sales, with 70% coming from DIY purchases. According to Larry Knudsen, Lumbermen's president who will head up the new division for Lanoga, his stores average 4,000-10,000 sq. ft. of floor space with another 10,000 sq. ft. of back-up warehouse area which allows serve as selling space. The stores carry 15,000-20,000 sku's and are situated on one to five acres.

These units are very similar to Lanoga's UBC and Spenard's outlets. The first chain, which reported $80 million in volume last year, has stores with 7,000-8,000 sq. ft. of floor space, a 20,000-sq.-ft. warehouse, and 10,000 sku's. Most are on two to three acres of land and are 60%-70% DIY. Fifty per cent of their sales are in lumber and building materials.

Spenard's, on the other hand, nearly doubled its chain size last year when Lanoga purchased the five-unit Superior Building Supply company from

(Continued on page 45)

### Lanoga at a glance

| | Number of stores | '81 sales (in millions) | % DIY volume |
|---|---|---|---|
| United Building Centers, Winona, Minn. | 110 | $80 | 60-70 |
| Spenard's, Anchorage | 10 | $100 | 20 |
| Lumbermen's, Shelton, Wash. | 5 | $20 | 70 |

*Source: NHCN research*

## NEWSBREAKS

**WESTERN SHOW PLANNED.** Sponsors of the National Home Center Show announced plans to introduce a Western Regional Home Center Show beginning in October 1983. The show's first location will be Anaheim, Calif.

**SCOTTY'S SEEKS DADE SITES.** Scotty's is collecting Dade County sites and plans to open about 10 stores in the Miami market by 1984. The expansion will begin as soon as real estate is obtained, according to Harold Taylor, senior vice president, who indicated that $14 million in short-term securities will be used.

## Ad budgets escape cuts; Radio, TV volume lowered

By Tom Moloney
*NHCN field editor*

NATIONAL REPORT—Home center ad directors are reportedly decreasing their use of radio and television advertising—or at most, spending no more than last year—preferring to use mainly newspapers and more finely targeted media.

According to most chain officials, however, overall 1982 advertising budgets are being kept in line with last year's expenditures, despite operating cutbacks being made as a result of sluggish sales.

Among home centers reporting cutbacks in their use of the airwaves are 81-unit Scotty's, Winter Haven, Fla., and O'Malley Lumber, Phoenix.

Scotty's plans for a new television campaign earlier this year were "dashed on the rocks of high interest rates," according to Tom Roskelly, director of advertising.

The new campaign was to have featured comparative pricing with other home centers, a switch from the chain's traditional TV format of supporting sale items featured in print ads.

Scotty's will instead run three more tabloids this year than they did in 1981, for a total of 20 eight-page circulars on a one- or two-per-month basis. "They really pull in the traffic,"

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